

Untitled

Keefe B. Clemons
Regulatory Counsel
Room 1403
185 Franklin Street
Boston, MA 02110-1585

Phone 617 743-6744
Fax 617 737-0648
keefe.b.clemons@verizon.com

October 11, 2000

By Hand

Mary L. Cottrell, Secretary
Department of Telecommunications & Energy
Commonwealth of Massachusetts
One South Station, 2nd Floor
Boston, Massachusetts 02110

Re: D. P. U. /D. T. E. 94-185-E

Dear Ms. Cottrell:

Verizon Massachusetts ("Verizon MA") is responding to AT&T's letter of September 12, 2000, regarding Verizon MA's revised price floor calculations filed with the Department on August 24, 2000 ("Compliance Filing"), pursuant to the Department's August 3, 2000 Order in this docket ("Price Floor Order"). In its letter, AT&T seeks clarification regarding Verizon MA's inclusion of a number of accounts and sub-accounts on the revenue side of its revised marginal cost of related overhead calculation that were not contained in its original filing on November 2, 1998. As discussed below, Verizon MA included in the Compliance Filing retail interstate revenues in calculating the marginal cost of related overhead to conform to the Department's ruling that the price floor analysis should be based on un-separated results. In addition, in its Compliance Filing, Verizon MA updated certain retail revenue accounts and included others that were inadvertently omitted from the original filing. The Compliance Filing is consistent with the Department's approved price floor methodology and should be approved by the Department.

Untitled

In the Price Floor Order, the Department held that Verizon must use un-separated accounting data for purposes of calculating the marginal cost of related overhead of non-premium toll services. Price Floor Order, at 15. The Department expressly held that the "purpose of this proceeding is to look at the actual costs incurred by [Verizon MA] and to determine which expenses would be incurred in providing retail services." Id. To assure consistency in the calculation of the marginal cost of related overhead, the expenses (in this case "un-separated expenses") included in the calculation must correspond to the retail revenues used in the calculation. See Testimony of Paula L. Brown (September 15, 1999); Tr. at 88-93. Accordingly, Verizon MA included in its Compliance Filing total un-separated costs and total retail revenues, including retail revenues booked as interstate revenues. Specifically, Verizon MA included the End User Common Line ("EUCL") revenues found in accounts 5081.1100 [EUCL-Residence] and 5081.1200 [EUCL-Business], totaling \$208,062,752. Verizon considered only those accounts that are strictly retail in nature, thus eliminating all wholesale revenues from the calculation. This proper accounting of all retail revenues, whether booked as interstate or state revenues, flows directly from the Department's order regarding the use of un-separated accounting data. The proper accounting for all retail revenues makes up the majority of the differential between the revenues contained in the November 2, 1998 filing and those contained in the Compliance Filing.

The remainder of the revenue differential is attributable to Verizon MA's inclusion of several accounts and sub-accounts that required updating for relevant data (public telephone) or which must be included if the retail overhead expenses for those accounts are included (nonregulated). In addition, some sub-accounts were inadvertently excluded in the original calculation (5100, 5111, 5112). Specifically, Verizon MA included the following additional accounts totaling \$118,897,234: 5010.1100-.3400 [Public Telephone Revenue](1) and 5280.1100-.9000. See Attachment 1.

AT&T's narrow reading of the Department's Price Floor Order is disingenuous. As discussed above, Verizon MA has included the appropriate intrastate retail expenses and corresponding revenues in its August 24, 2000 filing, and has fully complied with the Department-approved methodology. The Department should approve the Compliance Filing.

Sincerely,

Keefe B. Clemons

cc: Service List

1.

1 While account 5010 was not explicitly referenced in the November 2, 1998 filing, the revenue for this account is included on line 21 of Workpaper 4, Page 3 of 3 (\$34,462,000). As explained in the Workpaper footnote, the amount included in the November 2, 1998 filing assumed that the revenues were the same as contained in the 1996 Resale Analysis. In the Compliance Filing, Verizon MA provided the actual 1997 revenues for this account (\$34,945,353). The difference between these numbers (\$483,353) accounts for the remaining difference between the retail revenues contained in the November 2, 1998 and the August 24, 2000 filings prior to the application of the E-911 adjustment factor. The application of the E-911 adjustment factor (.659%) to the corrected total retail revenue contained in the Compliance

Untitled
Filing (\$2,106,516,080) equals the total retail revenue contained in the Compliance
Filing (\$2,092,643,330).